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Zacks Small-Cap Research

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CoreCivic, Inc. (CXW-NYSE)

CXW: Potential Impact of Title 42 Repeal

CXW will report 1Q22 results on May 4, 2022. We forecast revenue of $463.8M compared to $454.7M in 1Q21, an anticipated 2% y/y advance. The expected quarterly improvement is consistent with trends in recent quarters. In fact, CXW ended 2021 with only a 2.2% decline in total revenue despite a 7.4% fall in 1Q21, as occupancy rates improved over the year and reflecting revenue from new contracts.

OUTLOOK

In our view, the potential termination of Title 42 next month portends possible revenue upside for CXW. Government officials expect the flow of migrants to increase once Title 42 ends. Preliminary U.S. Customs and Border Protection data indicates that authorities detained 200k+ people along the southern border last month. This would represent the highest monthly total since August of 2021 *even before Title 42's repeal*. We expect ICE demand for capacity will increase once Title 42 is lifted. Thus, we see the potential for occupancy rates at several CXW facilities to increase, leading to incremental revenue.

Current Price (4/21/22)	$13.81
Valuation	**$18.00**

SUMMARY DATA

52-Week High	**$14.24**
52-Week Low	**$7.37**
One-Year Return (%)	**63.94**
Beta	**1.05**
Average Daily Volume (sh)	**935,282**
Shares Outstanding (mil)	**120**
Market Capitalization ($mil)	**$1,628**
Short Interest Ratio (days)	**7.9**
Institutional Ownership (%)	**83**
Insider Ownership (%)	**2**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**1.4**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2022 Estimate	**16.8**
P/E using 2023 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Mid-Value**
Industry	**Reit-Eqty Trust**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	484 A	490 A	509 A	498 A	1,981 A
2020	491 A	473 A	468 A	473 A	1,905 A
2021	455 A	465 A	471 A	472 A	1,863 A
2022	464 E	483 E	492 E	501 E	1,940 E

EPS / Loss per share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	$0.64 A	$0.69 A	$0.70 A	$0.59 A	$2.62 A
2020	$0.54 A	$0.56 A	$0.52 A	-$0.22 A	$0.45 A
2021	-$1.03 A	$0.13 A	$0.25 A	$0.23 A	-$0.43 A
2022	0.19 E	0.21 E	0.21 E	0.21 E	$0.82 E

4Q20 includes ~$0.35 noncash chg Qs might not sum from rounding

Disclosures on page 9

KEY POINTS

- CXW will report 1Q22 results on May 4, 2022. We forecast revenue of $463.8 million compared to $454.7 million in 1Q21, an anticipated 2% year-over-year advance. The expected quarterly improvement is consistent with trends in recent quarters. In fact, CXW ended 2021 with only a 2.2% decline in total revenue despite a 7.4% fall in 1Q21, as occupancy rates improved over the year and reflecting revenue from new contracts.

- In our view, the potential termination of Title 42 also portends possible revenue upside for CXW. Earlier this month, the Biden administration announced that Title 42 will cease by May 23, 2022. Government officials expect the flow of migrants at the southern border to increase once Title 42 ends.

- Preliminary U.S. Customs and Border Protection (CBP) data indicates that authorities were on-track to detain more than 200,000 people along the Mexican border last month. This would represent the highest monthly total since August of 2021 *even before Title 42 has been eliminated*. Concurrent with the expected rise in flows of people seeking asylum in the U.S., ICE has also recently closed older detention centers that were deemed inadequate.

- We expect ICE demand for capacity will increase once Title 42 is lifted. Thus, we expect occupancy rates at several CXW facilities to increase. Many (an estimated roughly two-thirds) CXW centers are operated under occupancy guarantees that exceed current actual occupancy levels. Once actual occupancy reaches – and then passes – guaranteed levels, we expect CXW to garner incremental revenue.

EXPECTED IMPACT OF TITLE 42 REPEAL

In our view, the potential termination of Title 42 portends possible revenue upside for CoreCivic (NYSE: CXW). This, combined with improving operating trends over 2021 (see below) could translate into higher than currently anticipated 2022-23 revenue expectations, we believe. Title 42 was enacted during the pandemic under the Trump administration to deter immigration into the U.S., with a stated public health justification to deter the spread of COVID-19. It was based on legislation authorizing the government "power to prohibit, in whole or in part, the introduction of persons and property" to curb a contagious disease from spreading. Earlier this month, the Biden administration announced that Title 42 will cease by May 23, 2022, which has spurred concern that the administration might not be prepared for a potential increase in immigration along the southern border once Title 42 ends. In fact, several states have sued to block termination of the immigration measure.

According to CBS News citing government statistics as of the end February 2022, the U.S. has expelled more than 1.7 million migrants under Title 42 since March 2020. The majority of immigrants expelled under Title 42 are sent to Mexico, the Mexican government having agreed to accept expelled migrants who are Mexican, Guatemalan, Honduran or Salvadoran nationals. Originally authorized as a short-term stopgap measure, as the pandemic persisted, Title 42 was extended indefinitely. Now, citing increased vaccination rates in the U.S. and migrants' countries of origin, the CDC endorses the termination of Title 42, although the measure has been extended previously during the pandemic in the face of rising case numbers.

Government officials expect the flow of migrants at the southern border to increase once Title 42 ends. There is concern that ICE does not have adequate detention capacity if the flow of people seeking entry into the U.S. rises, as expected. The Washington Post cites preliminary U.S. Customs and Border Protection (CBP) data indicating that authorities were on-track to detain more than 200,000 people along the Mexican border last month, which would represent the highest monthly total since August of 2021. Concurrent with the expected rise in flows of people seeking asylum in the U.S., ICE has also recently closed older detention centers that were deemed inadequate. This is consistent with recent directives from the Homeland Security Secretary for an overall reform of detention facilities. While phasing out privately managed detention capacity is a stated goal for the current administration, in our view it is unlikely that ICE can move towards this target in the near- to mid-term.

Expect incremental revenue if detention capacity rises post-Title 42, as anticipated

We expect ICE demand for capacity will increase once Title 42 is lifted. Thus, we expect occupancy rates at several CXW facilities to increase. Many (an estimated roughly two-thirds) CXW centers are operated under occupancy guarantees that exceed current actual occupancy levels. Once actual occupancy reaches – and then passes – guaranteed levels, we expect CXW to garner incremental revenue.

IMPROVING OPERATING TRENDS

1Q22 Outlook

CXW will report 1Q22 results on May 4, 2022. We forecast revenue of $463.8 million compared to $454.7 million in 1Q21, an anticipated 2% year-over-year advance. The expected quarterly improvement is consistent with trends in recent quarters. In fact, CXW ended 2021 with only a 2.2% decline in total revenue despite a 7.4% fall in 1Q21, as occupancy rates improved and reflecting revenue from new contracts. Specifically, 4Q21 revenue of $472.1 million was in-line with both the prior 2021 quarter and 4Q20, despite CXW's sale of 47 non-core real estate assets over several quarters leading into 4Q21 and the 4Q20 exit of two managed-only contracts in Tennessee. In the aggregate, the divested properties and managed contracts represented about $15 million of quarterly revenue that CXW was able to offset with revenue from new contracts and the company's initiatives.

While we expect the broader macroeconomic inflationary environment will likely impact 2022 results, CXW is proactively managing expenses where it can. In 4Q21, for example, total operating expense excluding impairment charges in both years was roughly flat year-over-year. The company realized an operating margin of 13.7%, up from 12.6% in the prior 2021 quarter.

The pandemic had a negative impact on occupancy rates for most of 2021. For 2022, we expect further improvements in occupancy rates and revenue. Moreover, with the ease from the challenge of the pandemic and reflecting the company's confidence in the stability of its business outlook, CXW reinstated guidance. The company expects 2022 diluted EPS to be in a range of $0.72 to $0.86, FFO per diluted share to be in a range of $1.55 to $1.70 and EBITDA to range from $354.8 million to $370.0 million.

Our $1.9 million forecast could prove conservative, depending on the status of Title 42, as noted, and potential new contracts and / or renewals, among other factors. We expect operating costs to rise over the next several quarters as the company continues to increase staffing levels and forecast total operating expense of $1.7 million. Moreover, the challenges that many companies currently face regarding filling staffing positions are generally expected to persist. Although CXW has enacted several measures to mitigate their impact, including offering incentives to increase staffing levels, the company might not be able to fill hiring positions as quickly as it would like. Our 2022 EPS forecast is $0.82 could be sensitive to how quickly the company can hire new personnel.

Balance sheet improvements

The company has accessed the capital markets to refinance debt and extend maturities. In 2021, CXW raised $450 million of senior notes that mature in 2026 and added a tack-on offering of $225 million. The additional notes have an effective yield to maturity of 7.65%. In 3Q21, CXW paid down $187.5 million of debt. Long-term debt was $1.492 billion at the end of 2021, compared to $1. 747 billion at the end of 2020. We expect the company to continue with its deleveraging efforts.

The TTM leverage ratio (net debt to adjusted EBITDA) was 2.7x, down from 3.7x at the end of 2020. CXW targets a leverage ratio of 2.25x to 2.75x. Although we would expect CXW to begin to deploy capital in other ways to return value to shareholders, we expect deleveraging measures to continue.

CXW had $299.6 million of cash at the end of 4Q21, plus an additional $11.1 million of restricted cash. With no funds drawn against its revolver, we believe the company has significant liquidity. The company has no major debt maturities coming due before 2023. The debt offerings and recent asset sales also enabled CXW to reduce its reliance on banks and other external source of cash and demonstrated ongoing investor interest in the company's securities.

MULTIPLE NEW CONTRACTS

The company recently announced a new 5-year contract with the state of Arizona for up to 2,706 inmates at its 3,060-bed La Palma correctional center in Eloy, Arizona. The contract has an extension option for up to another 5-years. The company is devising a ramp plan, expected to begin in late 1Q22 or early 2Q22, to transfer inmates to the facility and transition its ICE population currently housed at La Palma to its other nearby facilities. CXW expects to generate about $75 million to $85 million in annualized revenue from the new Arizona contract.

Importantly, in our view, this represents the largest prison contract awarded to the private sector by any state in over a decade. Moreover, we also believe it validates the company's view that the relatively dilapidated state of many federal and state facilities could translate into opportunities for CXW to transfer populations to its more modern venues.

Contracts with the U.S. Marshals Service (USMS) represent about 23% of CXW's annual revenue. USMS prison populations have remained relatively steady over the past several years and CXW believes that the USMS does not have sufficient detention capacity to satisfy their current needs without leveraging the capacity that CXW and other private entities can provide. The company believes that need for states such as Alabama and Hawaii to replace old, outdated facilities with modern ones underscores the state of prison facilities throughout most of the country and the need for states and federal authorities to access privately run facilities. CXW is analyzing and responding to several RFPs (requests for proposal). Separately, CXW is in discussions with potential partners to replace populations at its West Tennessee Detention Facility in Tennessee and Leavenworth Detention Center in Kansas.

VALUATION

We raise our valuation on CXW shares, as we continue to believe that the current share price does not fully reflect the expected stability and fundamental value of the company's steady cash flow generation and opportunities for new contracts to augment revenue. Pressure on CXW shares reflects concerns about government reform measures potentially overhanging sector prospects and negative publicity around ESG issues, among other factors. CXW released its fourth annual ESG Report earlier this month. Among other measures, the company continues to provide vocational training to help prepare inmates for employment opportunities upon release and reduce recidivism. As the stability of the company's revenue streams and ESG measures continue, we anticipate further multiple expansion on CXW shares.

Strong contract renewal rates; revenue diversification efforts

We note that over the past 10+ years, contract renewals have averaged over 90% per annum regardless of the administration in office and we anticipate that will continue in the foreseeable future for the very reason that government entities need to house the prison population and also face budgetary issues that likely constrain construction of new facilities in the near-term. Moreover, over the past several years, Core Civic has diversified into adjacent areas, growing its residential reentry centers, for example, and it would not surprise us to see the company add other new revenue streams over time. The transition to the C-Corp. structure could open the door to CXW entering additional adjacent verticals. We are optimistic about CXW's opportunity to continue generating stable cash flow.

Historically, CXW shares have been valued on a price to forward FFO basis, commanding an average multiple of about 13-14x this metric. However, given the concerns outlined above, the multiple has contracted significantly. We would anticipate multiple expansion as CXW continues to generate stable cash flow. We also believe the company's ESG initiatives will contribute positively to anticipate multiple expansions.

We see upside to CXW share price from two sources in the near-term: 1) as the company continues its deleveraging measures, we expect the equity component of enterprise value will rise and 2) we anticipate multiple expansion as investors become more comfortable with the company's outlook and with its ESG initiatives.

Anticipate further multiple expansion; FFO growth

If CXW FFO grows in the high single digit range over the next year or so, as we believe likely in a post-pandemic environment, and the shares attained a near-term 10x multiple of forward FFO, which still implies a significant discount from recent averages, that equates to a share price of about $18, and about 30% upside from current levels. We believe the risk / reward ratio could be attractive for investors who have a higher than average risk tolerance and longer time horizon.

RISKS

We believe risks to CXW achieving continued stable cash flow, and to our valuation, include the following.

- As contracts come reach expirations, the company might not be able to renew existing contracts or secure alternative utilization.
- Title 42 could be extended.
- Occupancy levels as a result of COVID-19 or other factors could continue to fluctuate.
- Justice system reforms might result in lower aggregate prison populations. However, CXW's efforts at diversification in recent years have led to community operating unit and reentry houses.
- Negative publicity and/or increased activism regarding the private prison operators could further pressure the share price.
- The company could be subject to litigation risk.
- Competitive risk, as the company responds to requests for proposals or interest.

RECENT NEWS

- CXW provided an ESG update on April 11, 2022, with the release of its fourth annual ESG report.
- On February 9, 2022, CXW announced 4Q21 results.
- CoreCivic announced a new contract with the state of Arizona on January 10, 2022.
- On November 8, 2021, CXW announced 3Q21 results.
- On September 22, 2021, CXW announced the upsizing and pricing of its tack-on notes offering.
- CXW entered into a new lease agreement with the state of New Mexico at the Northwest New Mexico Correctional Center on September 21, 2021.
- CXW provided an update on the USMS contract for the West Tennessee Detention facility on September 17, 2021.
- CXW announced the sale of 42 non-core government leased properties for $106.5 million on December 23, 2Q20.

FINANCIAL MODEL

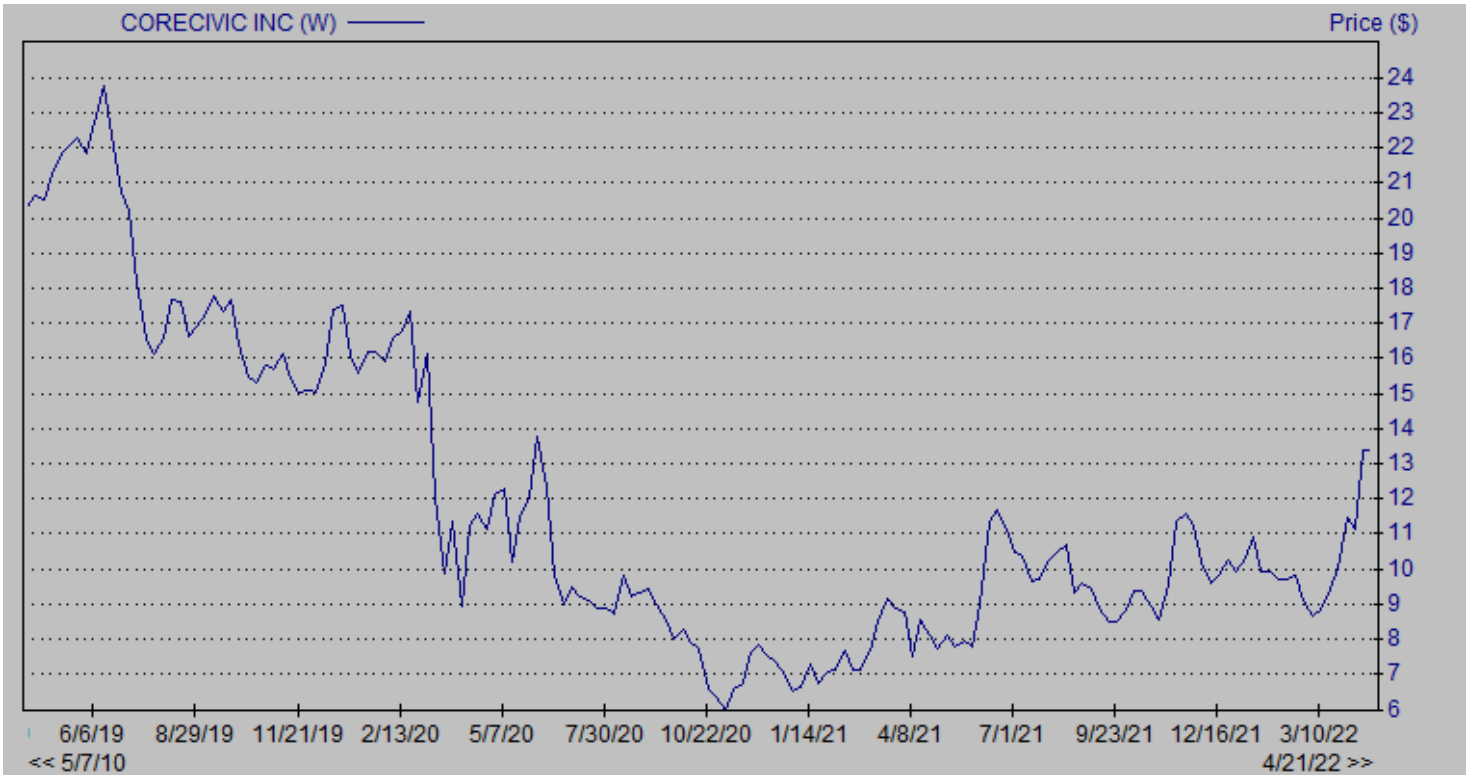
Core Civic

Core Civic Income Statement & Projections ($000s except per share data)

	1Q20	2Q20	3Q20	4Q20	2020A	1Q21A	2Q21A	3Q21A	4Q21A	2021A	1Q22E	2Q22E	3Q22E	4Q22E	2022E
Revenue	$491,101	$472,641	$468,266	$473,477	$1,905,485	$454,718	$464,571	$471,194	$472,133	$1,862,616	$463,812	$483,483	$492,398	$500,694	$1,940,388
Y/Y % change	*1.5%*	*-3.6%*	*-7.9%*	*-4.9%*	*-3.8%*	*-7.4%*	*-1.7%*	*0.6%*	*-0.3%*	*-2.2%*	*2.0%*	*4.1%*	*4.5%*	*6.0%*	*4.2%*
Operating expense	362,315	352,927	347,927	343,207	1,406,376	332,884	333,070	338,192	332,919	1,337,065	342,205	359,984	359,716	373,983	1,435,887
General and administrative	31,279	30,145	35,883	27,031	124,338	29,530	33,228	34,600	38,412	135,770	31,892	31,199	35,886	38,150	137,128
Depreciation and amortization	37,952	38,619	37,865	36,425	150,861	32,712	34,084	33,991	33,951	134,738	33,595	33,763	36,811	29,221	133,391
Shareholder litigation expense / other	-	-	620	-	620	51,745	2,550	-		54,295	-	-	-	-	-
Impairments / other	536	11,717	805	47,570	60,628	1,308	2,866	5,177	2,027	11,378	250	250	250	250	1,000
Total operating expense	432,082	433,408	423,100	454,233	1,742,823	448,179	405,798	411,960	407,309	1,673,246	407,942	425,195	432,663	441,605	1,707,405
Operating income	59,019	39,233	45,166	19,244	162,662	6,539	58,773	59,234	64,824	189,370	55,870	58,288	59,735	59,089	232,983
Operating margin	12.0%	8.3%	9.6%	4.1%	8.5%	1.4%	12.7%	12.6%	13.7%	10.2%	12.0%	12.1%	12.1%	11.8%	12.0%
Interest expense, net	22,538	20,996	20,193	19,572	83,299	18,428	23,222	20,653	23,239	85,542	23,916	23,916	23,916	23,916	95,662
Other (income) expense	(533)	(2,987)	(2,113)	25,272	19,639	148	13,409	(49)	4,217	17,725	125	125	125	125	500
	22,005	18,009	18,080	44,844	102,938	18,576	36,631	20,604	27,456	103,267	24,041	24,041	24,041	24,041	96,162
Pretax income	37,014	21,224	27,086	(25,600)	59,724	(12,037)	22,142	38,630	37,368	86,103	31,829	34,247	35,695	35,049	136,821
Taxes	(3,776)	962	(369)	(1,203)	(4,386)	(113,531)	(6,519)	(8,618)	(9,331)	(137,999)	(8,753)	(9,418)	(9,816)	(9,638)	(37,626)
Minority interest	(1,181)	-	-	-	(1,181)										
Net income	32,057	22,186	26,717	(26,803)	54,157	(125,568)	15,623	30,012	28,037	(51,896)	23,076	24,829	25,879	25,410	99,195
Per share data															
EPS	$0.27	$0.18	$0.22	($0.22)	$0.45	($1.03)	$0.13	$0.25	$0.23	($0.43)	$0.19	$0.21	$0.21	$0.21	$0.82
Dividends					$0.88										
Average shares outstanding	120,725	120,974	120,980	121,034	120,928	121,366	122,059	122,049	121,218	121,673	121,168	121,118	121,068	121,018	121,093
Funds From Operation (FFO)															
Net income	$33,238	$22,186	$26,717	($26,803)	$55,338	($125,568)	$15,623	$30,012	$28,037	($51,896)	$23,076	$24,829	$25,879	$25,410	$99,195
+ D&A of real estate assets	28,106	28,244	28,249	27,447	112,046	23,759	24,926	24,877	25,176	98,738	24,760	24,883	27,130	21,536	98,309
+ Impairment of real estate assets	405	9,750	-	4,225	14,380	1,308			2,027	3,335	-	-	-	-	-
- Gain on sale of real estate assets	-	(2,818)	(2,102)	17,943	13,023		(38,766)	-	-	(38,766)	-	-	-	-	-
+ - Other	-	-	532	-	532	(350)	9,641	-	(506)	8,785	-	-	-	-	-
FFO	61,749	57,362	53,396	22,812	195,319	(100,851)	11,424	54,889	54,734	20,196	47,836	49,713	53,008	46,947	197,504
FFO/share	$0.51	$0.47	$0.44	$0.19	$1.62	($0.83)	$0.09	$0.45	$0.45	$0.17	$0.39	$0.41	$0.44	$0.39	$1.63
+ M&A expenses	338		620												
+ COVID related expenses		8,165	2,820	2,792	13,777	1,598	836	-	-	2,434	-	-	-	-	-
+ - Other special items	3,216	2,314	5,503	50,681	61,714	152,284	43,757	3,728	3,085	202,854	-	-	-	-	-
Normalized FFO	65,303	67,841	62,339	76,285	271,768	53,031	56,017	58,617	57,819	225,484	47,836	49,713	53,008	46,947	197,504
Normalized FFO/share	$0.54	$0.56	$0.52	$0.63	$2.25	$0.44	$0.46	$0.48	$0.48	$1.85	$0.39	$0.41	$0.44	$0.39	$1.63

Source: Company reports, Zacks estimates

HISTORICAL STOCK PRICE



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